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TARRANT COUNTY TEXAS  
2008 MAY 20 AM 8:51

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

NO SURFACE USE OIL AND GAS LEASE  
(Paid-Up Lease)

This Oil and Gas Lease (this "Lease") is made on March 31<sup>st</sup>, 2008, between CityView Towne Crossing Shopping Center Fort Worth, TX. Limited Partnership, a Delaware limited partnership, (hereafter called "Lessor," whether one or more), whose address is 270 Commerce Dr., Rochester, NY 14623, and Vargas Energy, Ltd., (hereafter called "Lessee"), whose address is 4200 S. Hulen, Suite 614, Fort Worth, Texas, 76109.

1. Grant. In consideration of Ten Dollars and other consideration in hand paid, Lessor grants and leases exclusively unto Lessee the following described land (the "Land") in Tarrant County, Texas, for the sole purpose of exploring, drilling, and producing oil and gas, to produce, save, treat, process, store, and transport oil and gas and other products manufactured from oil and gas produced from the Land:

23.53 acres of land, more or less, being part of the J. Heath Survey, A-641, being Lot 3R-3, Lot 2R-2, Lot 3R-2A, Lot 2R-1B and a portion of Lot 3, Block 2, CITYVIEW ADDITION, an addition to the city of Fort Worth, of the plat records of Tarrant County, Texas, being the same land described in that certain Special Warranty Deed dated November 20, 2002, between CityView Towne Crossing, L.P. Grantor, and CityView Towne Crossing Shopping Center Fort Worth, TX. Limited Partnership, Grantee, recorded in instrument #D202336886, Deed Records of Tarrant County, Texas.

2. Primary Term. This Lease is for a term of three years from this date (called "Primary Term") and as long thereafter as oil or gas is produced in paying quantities from the Land or land pooled therewith.

3. Minerals Covered. This Lease covers only oil and gas. The term "oil and gas" means oil, gas, and other liquid and gaseous hydrocarbons produced through a well bore.

4. Royalty and Rent. (a) As royalties, Lessee agrees:

(1) To deliver to Lessor at the wells or to the credit of Lessor at the pipeline to which the wells may be connected, free of cost, 25% (the "Royalty Fraction") of all oil and other liquid hydrocarbons produced and saved from the Land. At Lessor's option, which may be exercised from time to time, Lessee shall pay to Lessor the same part of the market value at the well of oil and other liquid hydrocarbons of like grade and gravity prevailing on the day the oil and other hydrocarbons are run from the Lease in the general area in which the Land is located.

(2) To pay to Lessor on gas, including casinghead gas, or other gaseous substance, produced from said land and sold on or off the premises, in an arm's length transaction with a third party purchaser which is not controlled directly or indirectly, in whole or in part by Lessee, nor by any subsidiary or affiliate or parent company of Lessee, the Royalty Fraction of the proceeds realized from the sale of such gas, less the unaffiliated third-party deductions permitted in subparagraph 4(6) below, or on gas not sold as specified above, the Royalty Fraction of the market value of the gas as determined by the quoted index price per MMBTU, as reported in the first issue for the month of production of the Inside F.E.R.C. Gas Marketing Report, its successors and assigns, or equivalent publication, for Natural Gas Pipeline Company of America, Mid-continent Zone, less 17¢, for the costs of transmission of the gas through common carrier transmission lines from the field to the Natural Gas Pipeline Company of America, Mid-continent Zone. In the event such publication ceases, or demonstrably ceases to serve its present purpose, then the parties shall attempt to agree upon a similar substitute, failing which the royalty on gas shall be the Royalty Fraction of the market value of the gas at the location of the nearest sales pipeline.

(3) Lessor shall be paid the Royalty Percentage of all payments and other benefits made under any oil or gas sales contract or other arrangement, including take-or-pay payments and payments received in settlement of disputes; provided that if Lessor receives a take-or-pay payment or similar payment for gas that has not been produced, and if the gas purchaser "makes-up" such gas and Lessee is required to give such purchaser a credit for gas previously paid for but not taken, then Lessor will only receive its Royalty Percentage of any payments made by the gas purchaser for such make-up gas taken pursuant to the take-or-pay provision or similar provision.

(4) Notwithstanding any other provision of this lease, the royalty on gas shall never be less than the Royalty Fraction of the gross proceeds or amount realized by lessee, less the deductions authorized in subparagraph (6) below.

(5) Lessee shall have no obligation to process the gas for the recovery of natural gas liquids. If Lessee (or its affiliates) processes such gas or contracts to have the gas processed for it, Lessee agrees to pay Lessor the Royalty Fraction of the market value at the plant of all processed liquids c attributable to the gas plus the Royalty Fraction of the market value of all residue gas at the outlet of the plant, less reasonable and necessary processing cost.

(6) If, after the point at which the gas produced from the Land is delivered to a third party that is not an affiliate of Lessee ("Third Party") and that Third Party compresses, transports, processes, or treats gas produced from the Land, Lessor's royalty will bear its proportionate share of costs and expenses paid by Lessee associated with such activities occurring after the gas is delivered to the Third Party, but the amount deducted for compression, transportation, processing, and treatment shall not exceed the amount that would be deducted from the Lessor's royalty for the same services under similar circumstances in an arms-length transaction between unaffiliated parties. Lessor's royalty will bear its share of all severance and production taxes. As used in this Lease, "affiliate" means (i) a corporation, joint venture, partnership, or other entity that owns more than ten percent of the outstanding voting interest of Lessee or in which Lessee owns more than ten percent of the outstanding voting interest; or (ii) a corporation, joint venture, partnership, or other entity in which, together with Lessee, more than ten percent of the outstanding voting interests of both Lessee and the other corporation, joint venture, partnership, or other entity is owned or controlled by the same persons or group of persons.

(b) In addition to the royalties to be paid pursuant to subparagraph 4(a) above, Lessee shall pay rent to Lessor for the first year of the term hereof in the amount of \$261,933.00, which rent shall be payable in full concurrently with Lessee's execution of this Lease. The rent under this Section 4(b) shall be payable with respect to the first year only and no rent shall be payable for any period beyond the first year hereof.

(c) The receipt by Lessee from a purchaser or a pipeline company of proceeds of production for distribution to Lessor will not result in Lessee acquiring legal or equitable title to those proceeds, but Lessee will at all times hold the proceeds in trust for the benefit of Lessor. Notwithstanding the insolvency, bankruptcy, or other business failure of a purchaser of production from the Land or pipeline company transporting production from the Land, Lessee will remain liable

for payment to Lessor for, and agrees to pay Lessor all royalties due Lessor together with interest if not timely paid.

5. Operations. (a) If, at the expiration of the Primary Term, oil or gas is not being produced from the Land, but Lessee has commenced operations for the drilling of a well on the Land, or lands pooled therewith, the Lease will not terminate but will remain in effect for so long thereafter as operations are carried out with no cessation of more than 120 days, and if the operations result in the production of oil or gas, the Lease shall remain in force as otherwise provided herein. For the purposes of this Lease, the term "operations" means operations for any of the following: continuous physical operations conducted on the drillsite in preparation for drilling, drilling, testing, completing, reworking, fracing, recompleting, deepening, plugging back, or repairing of a well in search of or in the endeavor to obtain, maintain, re-establish or enhance production of oil or gas with no cessation of more than 120 days.

(b) If after the expiration of the primary term production from any well shall cease for any cause, Lessee shall have 120 days from the cessation of production to commence, and thereafter prosecute drilling or reworking operations in a good faith attempt to restore production from the Land or lands pooled therewith with no cessation of more than 120 days, and if such operations result in production, this lease shall continue for so long as production in paying quantities continues or the lease is otherwise maintained in force.

(c) As a result of land development in the vicinity of the Land, governmental rules or ordinances regarding well sites, and/or surface restrictions as may be set forth in this Lease and/or other leases in the vicinity, surface locations for well sites in the vicinity may be limited and Lessee may encounter difficulty securing surface location(s) for drilling, reworking or other operations. Therefore, since drilling, reworking or other operations are either restricted or not allowed on the Land or other leases in the vicinity, it is agreed that any such operations conducted at a surface location off of the Land or off of lands with which Land is pooled in accordance with this Lease, provided that such operations are associated with a directional well for the purpose of drilling, reworking, producing or other operations under the Land or lands pooled therewith, shall for purposes of this Lease be deemed operations conducted on the Land. Nothing contained in this paragraph is intended to modify any surface restrictions or pooling provisions or restrictions contained in this Lease, except as expressly stated.

6. Continuous Development; Partial Termination. If, at any time after the expiration of the primary term, a period of 180 days shall lapse between the completion of a well on the Land, or lands pooled therewith, and the commencement of another well on the Land, or lands pooled therewith, then this

Lease shall automatically terminate as to all Land not then included within a proration unit, of a size which would be allowed for a unit under Paragraph 9, for a well then producing oil or gas in paying quantities, and as to all formations deeper than the deepest formation from which oil or gas is then being produced.

7. Surface Use. Lessee is prohibited from using the surface of the Land for any purpose, but Lessee may engage in directional drilling activities beneath the Land that are conducted on the surface of other land. Any directional drilling must penetrate the Land sufficiently below the surface as to not interfere with the present or future use of the surface of the Land for commercial or residential use, and in no event may the directional drilling penetrate the Land less than 200 feet below the surface. A directional well drilled under this provision shall be considered to be located on the Land to the extent the Land is included in a pooled unit or proration unit for the well.

8. Shut-in Royalty. While there is a gas well on this Lease or on acreage pooled therewith capable of producing gas in paying quantities, but gas is not being sold, and this lease is not otherwise being maintained in full force and effect, Lessee shall pay or tender in advance an annual shut-in royalty of an amount equal to \$10 per acre covered by this Lease. Payment with respect to a well will be due within 180 days after the well is shut-in. All subsequent Shut-In Royalty payments will be due on or before the anniversary date of the date of the first Shut-In Royalty payment. While shut-in royalty payments are timely and properly paid, this Lease will be held, as to the Land included in a proration unit or pooled unit for the well, as a producing lease for a period of one year after the well is shut-in. The obligation of Lessee to pay shut-in royalty is a condition and, if Lessee, for any reason, should fail to make a shut-in royalty payment on or before its due date, this Lease shall terminate. The payment or tender of royalty under this paragraph may be made by the check of Lessee mailed or delivered to the parties entitled thereto on or before the due date. After the primary term, this Lease may not be extended by payment of shut-in royalty for more than 2 years cumulative.

9. Pooling. Lessee shall have the right to pool, as to any one or more formations, the Land with other land or leases in the vicinity thereof, to form pooled units for the production of oil and gas or either of them. Units pooled for oil shall not exceed 40 acres, plus a tolerance of 10%, and units for gas shall not exceed 320 acres, plus a tolerance of 10%, provided that if a governmental authority having jurisdiction prescribes a unit for the drilling or operation of a well to be larger than those specified hereunder, units created thereafter may conform substantially in size to those prescribed by the governmental authority. If the well is a Horizontal Well, as defined in the Rules of the Texas Railroad Commission, the unit may contain the acreage permitted by Rule 86 of the Texas Railroad Commission, and

may, in the case of a well or wells having more than one horizontal wellbore, contain a maximum of 320 acres, plus a tolerance of 10%. The unit will become effective when Lessee files in the Real Property Records of the county where the Land is located a document describing the pooled acreage and depths for the pooled unit, and Lessee delivers a copy of the document to Lessor. Lessee may at its election exercise its pooling option before or after commencing operations. Operations for drilling on or production of oil or gas from any part of a pooled unit that includes land covered by this Lease shall be considered as operations on or production of oil or gas only from the portion of the Land included in the pooled unit. There shall be allocated to the Land included in the unit that prorated portion of the oil and gas, or either of them, gas produced from the pooled unit that the number of surface acres of the Land included in the unit bears to the total number of surface acres included in the unit. Royalties shall be computed on the portion of production allocated to the Land.

10. Force Majeure. Should Lessee be prevented by reason of Force Majeure from complying with any express or implied covenant of this Lease (other than a requirement to pay money), from conducting drilling or reworking operations on the Land, or from producing oil or gas, then while so prevented, that covenant will be suspended; Lessee will not be liable for damages for failure to comply therewith; this Lease will be extended so long as Lessee is prevented from conducting drilling or reworking operations on or from producing oil or gas from the Land; and the time while Lessee is so prevented will not be counted against Lessee. "Force Majeure" means any Act of God, any federal or state law, scarcity of drilling rigs or other equipment, inability to obtain a drilling permit, any rule or regulation of governmental authority, or other similar cause (other than financial reasons), but no event caused by Lessee's fault, or within Lessee's control, shall be considered Force Majeure.

11. Warranties. Lessor warrants title to the Land by, through and under Lessor, but not otherwise. If Lessor owns an interest in the Land less than the fee simple estate, then the royalties, payable hereunder will be reduced proportionately.

12. Notices. All notices will be deemed given and reports will be deemed delivered if sent by certified letter, return receipt requested, properly addressed and deposited in the United States Postal Service, postage prepaid, to Lessor and Lessee at the addresses shown above. Either party may designate a new address by proper notice to the other party.

13. Insurance. At all times while this Lease is in force, Lessee shall acquire and maintain insurance covering all of its operations on the Land, including any work performed on its behalf by contractors, subcontractors, and others,

naming Lessor and related individuals and entities designated by Lessor as additional insureds. The policies shall include coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage, and coverage for any damage to the environment, including coverage for the cost of clean up and surface remediation. The coverage shall be in the minimum amount of \$5,000,000.

14. Indemnity. LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE FOR NUISANCE, FOR INJURY TO OR DEATH OF PERSONS, AND FOR LOSS OR DAMAGE TO PROPERTY, OR ANY OF THEM, INCLUDING, WITHOUT LIMITATION, ATTORNEY FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY OR RESULTING FROM LESSEE'S OPERATIONS OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS. LESSEE'S INDEMNITY OBLIGATIONS SURVIVE THE TERMINATION OF THIS LEASE.

15. Dispute Resolution. In the event of a dispute under this Lease, the parties agree to attempt to resolve the dispute through good faith mediation to be held in Tarrant County, Texas.

16. Miscellaneous Provisions. (a) In the event this Lease expires for any reason as to all or any part of the Land, Lessee shall, within 60 days thereafter, furnish Lessor with a written, recordable release covering all of the Land or that portion of the Land to be released.

(b) Nothing in this Lease negates the usual implied covenants imposed upon Lessee.

(c) Lessee will conduct all operations hereunder in compliance with the rules of the Railroad Commission of Texas and federal and state environmental laws and regulations. Lessee will give Lessor at least ten days prior notice in writing before conducting seismic operation on the Land.

(d) The terms "production" and "producing" mean production and producing in paying quantities. No obligation of Lessee to pay money under this Lease will be excused or delayed by reason of Force Majeure. Lessee's obligations to pay money under this Lease are to be performed in Tarrant County,

Texas. Paragraph headings are used in this Lease for convenience only and are not to be considered in the interpretation or construction of this Lease. The execution or ratification by Lessor of any division order, gas contract, or any other document will not alter any provision of this Lease unless the intent to do so is expressly stated in the document.

(e) This Lease is binding upon and for the benefit of Lessor, Lessee, and their respective heirs, personal representatives, successors, and assigns.

Executed on the date first written above.

LESSOR:

CityView Towne Crossing Shopping  
Center Fort Worth, TX. Limited Partnership

By: 

Title: ~~Mr.~~ William Sondericker, Vice President

LESSEE:

VARGAS ENERGY, LTD.

By Plover Production Company, LLC, its  
sole General Partner

By: 

Crawford Edwards, President



STATE OF New York  
COUNTY OF Monroe

This instrument was acknowledged before me on the 29<sup>th</sup> day of April, 2008, by William Sandericker, Vice-President of CityView Towne Crossing Shopping Center Fort Worth, TX. Limited Partnership, a Delaware limited partnership, on behalf of the partnership.

Roseann Welch  
Notary Public, State of New York

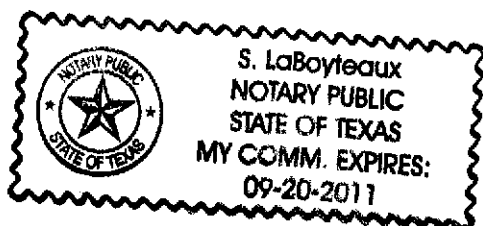
ROSEANN WELCH  
Notary Public State of New York  
Monroe County #01WE5015859  
My Commission Expires 08/02/2009

STATE OF TEXAS

COUNTY OF TARRANT

This instrument was acknowledged before me on the 5<sup>th</sup> day of May, 2008, by Crawford Edwards, President of Plover Production Company, ~~Sole~~ General Partner of Vargas Energy, Ltd., a Texas limited partnership, on behalf of the partnership.

S. LaBoyteaux  
Notary Public, State of Texas

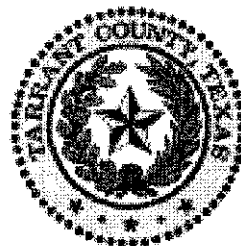


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Fort Worth, Texas 76102

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By: \_\_\_\_\_



D208186762

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE  
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

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